

Jack Lang, the Loan Council and the Bruce/Page Government

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The states were disadvantaged by joining the Federation in 1901. They surrendered their incomes derived mainly from customs and excise to the new Commonwealth and received back 75 per cent of it. But after 1910 that amount was withdrawn and they had to accept 25 shillings per head. The loans they had been accustomed to raise since the 1880s either locally or in London assisted in keeping their economies afloat through providing employment on various public works programmes. But the war removed even that thin line of support as the Commonwealth took over all loan raisings to fund the war. Most states other than NSW agreed not to raise loans causing an increase in the numbers of unemployed. In the early stages of the war, funds were lent by Britain to the Commonwealth to assist in war mobilisation some of which was lent to the states. The British funds were not sent to Australia; a credit was created in the Commonwealth Bank in London and, to the horror of orthodox economists, additional notes were printed by the Treasury's Note Issuing Branch in Australia with a promise that they would be redeemed at the end of the war. The Commonwealth established a war-time loan council to distribute these British funds and raise new loans in Australia. NSW continued to raise loans in London, much to the Commonwealth's annoyance, because it wished to maintain strong employment levels through its public works programme. The war cost nearly £400 million and the Hughes National government in 1920 sought to re-establish this loan council as a measure for assisting in the loan renewals and repayments. The Commonwealth wished to have the states avoid conducting their borrowing programmes when the Commonwealth was renewing its war-time loans. Hughes was replaced by S.M. Bruce in January 1923 and Dr Earle Page became his Treasurer. They embarked on a programme to curtail the borrowings by the states. They argued that money invested by private corporations was done more efficiently and effectively than if a government invested the same money in infrastructural developments. NSW had not joined the war-time loan council but when Fuller was Premier he enrolled the state in Bruce's loan council.

Government Versus Private Investment

At the first meeting of this council on 1 February 1924, Dr Page announced that 'borrowings in the past have been much too heavy, and that the demands of the Governments for loans have resulted in a more or less complete absorption of available funds'. Page produced no evidence to substantiate these claims, but proposed the novel policy of pegging increases in loan raisings to population increases. He thereby ignored the fact that it was the requirements for funding essential infrastructure that set the level of loan raisings. Dr Page repeated his credo that 'In my opinion, it is imperative to reduce Government borrowing greatly'. In a further move to curtail loan-funded public works he proposed that all municipal and local government bodies have their loan raising capacities curtailed by having the state governments legislate for them to be subject to the authority of the new Loan Council. He declared that he would 'leave all accumulation of wealth in Australia for the benefit of private enterprise'.¹ His shock tactics worked and when the state Treasurers assembled the next day they meekly agreed to Dr Page's three-point plan. This provided that they would refrain

from borrowing when the Commonwealth was renewing its loans; they would authorise the Council to determine the time and method of placing all loans and; they would agree to an interest rate of six per cent (an increase of half a per cent on existing rates) with a maximum term of ten years. By such measures, the states surrendered their capacity to raise loans for the funding of their state economies.

Ramifications of Establishment of the Temporary Loan Council

The disadvantage of the loan council was that the initiative to raise loans rested with the council and not, as it had previously done, with the state treasuries or their Agents-General in London. The loan council was to borrow under its own name and then divide the amount among the states on an agreed basis. Lacking the same enthusiasm and drive of the state treasuries, the new council would be unable to maintain a continual flow of borrowings and renewals. Some in the NSW government saw a threat to the state's autonomy in Dr Page's new council. The NSW Treasurer in the Fuller Nationalist government, Sir Arthur Cocks, attacked Dr Page's programme for its 'gradual encroachment of the Federal Ministry upon the sovereign rights of the States'. He referred to Deakin's comments made when the constitution was being written about how the 'power of the purse in Great Britain by degrees established the authority of the Commons'. Cocks described a similar situation arising locally, 'If a change of government in Australia is advisable', [ie switching to a unitary state] remarked Sir Arthur Cocks, 'surely it should be dealt with by a straight-out declaration of policy, rather than by the insidious system squeeze, restriction and suppression by the Federal Ministry which renders the position of every State almost, if not quite, intolerable'.²

Having enrolled his state in the loan council from early in 1924, Fuller discovered too late that he had chosen the wrong financial path to save his government from electoral defeat. Bluffed by Dr Page's plea to suspend all loans in order to give preference to the Commonwealth's loan conversion processes, Fuller soon found that the reduction in funds produced unemployment and disenchantment among his voters with the slowing of the local economy. Fortunately for him, he was able to raise a London loan of £6 million in new money in May 1924. This money was not to be brought to Sydney; it was to be used for paying the goods and services obtained in Britain for the NSW government. But Fuller arranged for these funds to be transmitted to Sydney in spite of the large bank charges this incurred. These London funds were too little and came too late to help him win the general elections on 30 May 1925. The electors swung to support the Labor party for office under J.T. Lang giving him a thin majority of two seats. Bruce and Page were now to confront a Labor Premier who challenged their ideas about reducing government investment in the national economy and curtailing the financial powers of the states.

The Election of the Lang Labor Government

Lang owed his electoral success more to the promise to legislate for a 44-hour working week and for pensions for widows and orphans rather than his intention to keep NSW free of Dr Page's loan council and deflationary policy. One of his earliest

actions as Premier was to withdraw NSW from the loan council. He announced that the council reduced the opportunity for NSW to obtain the amounts sufficient to meet its public works programme and that the market was more prepared to lend in small amounts to individual states than in one large sum to the Commonwealth.³ 'The comments of Dr. Page,' he remarked, 'bear out my contention that a limitation would be placed on necessary borrowings, which would considerably hamper the Treasurer and seriously affect the State Government's developmental policy much to the detriment of New South Wales'.⁴

Lang's condemnation of the council and electoral back-lash against Fuller's deflationary policies made an impact on Dr Page. At its meeting in Melbourne on 16 and 17 June 1925, Dr Page was much more conciliatory and agreed to raise the very much larger loan of £45,481,000 of which £10 million was nominally allocated to NSW. The possibility of the Commonwealth borrowing in the USA was to be explored.

The loan council sought to have Lang join their number. It delegated W.N. Gillies, the Premier and Treasurer of Queensland, to visit Lang when returning to Brisbane. But Gillies was ill by the time his train reached Sydney and while Lang went to Central station to meet him nothing ensued.⁵ Dr Page then took up the negotiations with Lang who responded by adopting a policy of mediation towards the council. Page's strategy remained one of stopping local loan raising to make way for the conversion of the £68 million war loan and to borrow money for the states from London or the US. He sought £20 million from overseas and wished to establish a consortium of banks for this borrowing in London instead of conjointly employing Nivisons and the Commonwealth Bank.⁶ Nivisons were the loan brokers for all the states.

These proposals of Dr Page were adopted by the loan council at its meeting in Melbourne on 6 and 7 July 1925. Lang seemed willing to attend this meeting and sent his apologies with the message that he would 'be glad however to consider question [of] co-operation [in] any decision arrived at'.⁷ Page explained his London strategy to Lang after this meeting and Lang requested copies of cables exchanged between the Commonwealth government, the loan council, the Bank of England, Nivisons the British Treasury. On receiving these, Lang replied that he would consider the situation and prepare a 'definite reply as to the attitude of this State'.⁸ Page decided to proceed with a loan of £15 million in New York and another in London of £5 million. This sum of £20,411,486 was to be used to pay off the overdrafts incurred in London by the states and to meet the payment of the states' purchases in Britain. No funds were to be remitted to Australia and the states were to use their revenues to fund the public works programmes. Given the lack of such revenues, this decision was tantamount to a significant reduction in such programmes. Lang refused to share in Dr Page's borrowing arrangements saying that sufficient money could be raised in London by NSW and that 'it will be a mistaken policy to break the long tradition of Australian financial connection with London on account of a temporary difficulty that may disappear a few months hence'.⁹ This policy was soon after to be abandoned when Lang found that the 'temporary difficulty' was to be more long lasting than he had anticipated.

'Bringing the States [More] to Heel'

In discussing the constitution in 1902, Alfred Deakin predicted that the states would lose their financial independence to the Commonwealth. He described the situation of states losing their financial autonomy as one of them having to be 'brought to heel'. And this was seeming to become the reality by the mid 1920s under the plans of Bruce and Page. While the previous changes under which the states had their financial wings clipped may

have been economically disadvantaging for the states, the process was slow and predictable. But under Dr Page, such changes were to be more sudden and thorough. His innovations were so efficiently planned that the states were unable to mount practicable defences against them.

Bruce and Page promoted policies that reflected political relationships expressed in terms of 'them and us'. Rather than seeing the Australian people as being governed by two differing administrations (the states and the Commonwealth) that should cooperatively attend to the people's needs, the two men viewed them as separate political bodies. They considered the Commonwealth's revenue (principally customs and excise) as its own and not to be shared with the states. They believed that the states should fund their obligations by revenues raised through their own income taxes and other measures. This new approach by Bruce and Page to national financing was directly linked to their concern about loan raisings and the growth of state enterprises. The guarantee of income through the provision by the Commonwealth of payments to the states of 25 shillings per head was perceived by Bruce and Page as a means for the states being wrongly encouraging to undertake activities that these men opposed. Stopping the per capita payments, Bruce and Page believed, would curtail the state's ability to undertake such schemes. This would place a 'salutary check' on the states' activities. 'The States', declared Prime Minister Bruce, 'have not that financial independence which is essential to good government, and there is not such a salutary check on expenditure as would be the case if the States themselves had to raise all the revenues they require'.¹⁰ Dr Page disliked the continuing existence of the states. He favoured the elimination of state boundaries and boldly declared how they should be redrawn on the following impracticable principles:

Give the Commonwealth complete control of immigration, federalize the Crown lands, subdivide the States into provinces whose outlines are determined solely by the lines of community of interests, big enough to attack national schemes in a large way, but small enough for every legislator to be thoroughly conversant with every portion of the area, and land settlement and proper development will naturally follow.¹¹

The fundamental question arises in the progression of these events of why Bruce and Page forced these crucial changes on an unwilling political coalition and a reluctant Parliament in March 1927. Indications were that a long-term plan had been formulated by Bruce and Page in which this denial of the per capita payment was the initial stage in a longer term programme for 'bringing the states to heel'. Lang was aware of these plans and hoped to preserve NSW from their effects by remaining out of the loan council and borrowing independently both locally and overseas.

The Economic Policies of the Lang Labor Party 1925-27

In spite of Lang having a slim majority of two seats (providing a speaker reduced this to one) from the general elections in May 1925, his government set about two innovative political programmes. One was to expand the existing small social welfare system by introducing a scheme of widows' pensions and child endowment, but all on a limited scale. The other was to raise the loan funded works programme to the level of previous years. These called for increased government spending and expanded loan raisings. Lang also established the Government Insurance Office mainly to provide lower premiums for workers' compensation insurance. Lang had increased the compensation for injured workers to which the insurance

companies had responded by raising their premiums to excessive levels. The Government Insurance Office was a measure for forcing down those premiums and providing

cheaper insurance.¹² Lang also adopted new measures for increasing revenue to offset the government's increased expenditures. One bold innovation that won him more enemies in high places was the introduction of a tax of 0.5 pence per copy on those newspapers with circulations exceeding 15,000.¹³ The plan raised to even greater levels the anger of the newspaper owners against Lang. The law was challenged by the newspaper owners in the High Court and it was declared to be invalid because it was considered to be an excise.

Lang increased the loan funded public works programme for 1925 by £2.5 million over the £11,255,190 proposed by the defeated Fuller government. Some of this loan money (estimated to be £700,000) was to be spent on expanding the state's education facilities such as the building of new schools, teachers' houses and agricultural colleges. Lang had already promised the abolition of high school fees as part of this programme of widening the availability of education. Railway construction work was seen by Lang as an important means for absorbing the unemployed workers and the Chief Railway Commissioner, James Fraser, was asked to speed up such works with emphasis on the Sydney underground network. Fraser sought to expand employment on the electrification of the main suburban line in the vicinity of Homebush and Strathfield that would employ 500 men. This plan would produce immediate revenue whereas work on the underground, although employing many men, would not be completed for some years. Lang replied to Fraser through his Under Secretary, C.R. Chapman, asking for the tunnelling to continue even though it would delay increased revenue. He suggested that another 500 men could be employed on the section between St James station and Circular Quay.¹⁴ Loans were raised by the Lang government in London for £4 million and in Sydney for £11,581,903. The Sydney funds were raised by the sale of government stock to the Government Savings Bank, the State Superannuation Board and two life insurance companies, MLC Assurance and the AMP Society.¹⁵

NSW's abstention from the loan council continued to annoy the press and the Commonwealth government. Officials in the Commonwealth Treasury suggested holding the next loan council meeting in Sydney to attract Lang back to the fold, but it was not implemented. The council's meeting of 18 August in Melbourne regretted the absence of NSW and it agreed to inform the London underwriters that NSW should not be given more favourable access to the market than those governments joining in the loan council.¹⁶ Rebutting Lang's claim that the Council would limit his government's loans, the Council declared ambiguously that membership of it 'preserved absolute freedom to every State, except in so far as its government may voluntarily bind itself to Council's decision'.¹⁷ Meanwhile Lang discovered that of a recent loan raised by the council, £928,380 was subscribed from NSW. 'One can understand', he remarked, 'how other States welcome the constitution of the Loan Council when New South Wales is able to subscribe the best part of a million pounds to a loan raised for the purpose of financing public works in other States'.¹⁸ The event demonstrated that private and corporate investors were prepared to buy government stock rather than chance their money in the less secure private investments in which Dr Page and his commercial friends wished to see it invested. Lang was able to demonstrate that the costs of raising the council loans far exceeded that for NSW loans. His Treasury figures showed that the recent council loan cost NSW 16s.8d. per cent whereas NSW's loans cost 7s.6d. per cent. The added costs were due to the Commonwealth engaging the banks to underwrite the loan and they demanded that the loan be at a low price to ensure its ready sale. NSW's loans were not underwritten.¹⁹

Like the previous Nationalist government, Lang lost few opportunities to assert the advantages of loan-funded public

works for the State's economy and for employment. In his budget speech he pointed out that 'It would practically be impossible to construct public works out of revenue. If loans were not raised the development of the state would remain at a standstill. Unemployment would eventuate, and assume large proportions, if public works were not proceeded with'. He agreed that, 'Some of the public works do not directly contribute to the revenue, and in some instances do not produce sufficient revenue to meet the whole of the interest on the outlay, [but] they must be regarded as national necessities, the capital value of which is at least equivalent to the amount expended out of loan funds'.²⁰ Lang and his early-Keynesian ideas were never confronted by his opponents. Their tactics instead were to condemn loan-funded investments for the increase they caused to the national debt and never for the economic stimulus nor for the increased employment and consumption they created. These negative ideas became an item of economic faith with such critics. When governments adopted the arguments of these economic pundits by reducing the loan raisings and cutting the public works programmes during the Great Depression, extensive unemployment ensued. In spite of such demonstrations, the financial pedants steadfastly refused to accept the causal economic link between the expenditure of loan funds and the increased employment and related prosperity.

British Financiers' Attitudes Towards NSW

NSW political affairs were widely reported in London. Lang's controversial attempts to have the Legislative Council abolished by persuading the Governor, Admiral Sir Dudley de Chair, to appoint additional Labor Councillors to act as a 'suicide squad' to do the job was published in detail.²¹ The sequel, when some of the 'suiciders' changed their minds and held on to their seats, was equally as well publicised.²² Fortunately the government's Attorney-General, Edward McTiernan, was then in London and could keep Lang informed. He reported on the hostility of the Bank of England and particularly its Governor, Montague Norman, towards NSW. This he acknowledged as being due to NSW, some time previously, transferring its business from the Bank of England to the London County Bank and the Westminster Bank. It started a trend that other Australian states followed. Norman, he reported, enjoyed close connections with the London press, particularly the *London Times* and hinted that he fuelled the hostility towards NSW.²³

Indeed Norman took a close interest in Australian financial affairs. In June 1925 he had an argument with Lord Glendyne of Nivisons (NSW's London loans broker) saying that Australia should borrow from the US say 80 per cent but place the balance of 20 per cent with the London market. Norman also said that the states should borrow only through the Commonwealth government. Nivisons opposed him on all these points having already expressed opposition to the loan council concept. The Commonwealth Bank's London Branch was involved in these arguments and urged Norman to express his plans to Joseph Cook the Australian High Commissioner in London for transmission to the Commonwealth government, which he accordingly did.²⁴ The British government was also concerned at the rate of lending in colonial and foreign loans and reviewed the matter over three weeks in October 1925.²⁵ With Britain returning to the gold standard and purchasing large quantities of gold from overseas and with general savings and investments falling to lower rates than previously on account of the depleted economy, there was a signalling from London that the Australian-British financial relations would face troubled times. The Australian experts, unfortunately, did not identify these significant portents of decline at that stage.

Attacks on Australia's borrowings were mounted from other sources. British overseas lending (particularly to

Australia) was censured in a pamphlet published in October 1926 by S.R. Cooke and E.H. Davenport titled *Australian Finance*. Its tenor was stamped on the first page: 'In the whole British Empire there is no more voracious borrower than the Australian Commonwealth' it artlessly declared. NSW was condemned for 'demanding £4,000,000 from the British investor' when it had already spent the money and wanted a loan to 'repay the State's banker'. It had been the established custom for 30 years for all states to maintain overdrafts with their London bankers and then repay the overdraft after a year by raising a loan. Such established banking practices were brashly ignored by the authors in their targetting of Australia. Nor did the authors explain that these British loans were spent on British consumer goods (exported to Australia) and services and that little money actually left British shores. Sensationalism and distortion were the pamphlet's twin aims. Using the latest Australian statistics, the authors demonstrated that the 'visible wealth' of Australia was £2,823,000,000 in 1921 and that the total net debt of £828,000,000. This represented 30 per cent of the value of that wealth, said the authors, while failing to mention that much of the loan stock was held by Australians. A particular concern of the authors was that some of the loan money might be used for government enterprises such as the Commonwealth Shipping Line or the Commonwealth Oil Refineries both of which competed against British companies. The pamphlet contained both facts and exaggerations. It represented an unacknowledged fear, then sweeping financial circles in London, that Britain faced a reduced post-war capacity to function as an international money market. By scapegoating Australia for its borrowing programmes, London could defer having to face that growing reality.

Prime Minister Bruce saw a necessity to answer these distortions at a dinner given by Australian bankers in London on 15 November 1926. He did this not to defend Lang nor his curtailing the financial power of the states, but because the Commonwealth would still require access to the London money market. Bruce remarked that whereas the British war loans of £7.6 billion were non-reproductive, the Australian loans were at the height of their productive power. The Australian railway network constructed with borrowed funds and far larger than that of Britain's was quoted as an example. He reminded his listeners that Australia 'bore every penny of her war effort. She funded and made provision to pay the debt incurred before any other nation recognised similar obligations'. He remarked that Australia could manage its own financial affairs and added ominously that if necessary it could 'meet the remainder of her needs elsewhere'. He enlarged on this point of diminishing British wealth with the comment that, 'If such is Britain's financial position [of being unable to lend funds] it is dangerous to Imperial goodwill to have that fact veiled behind criticisms of Australia's financial policy and against Australia's credit and stability'.²⁶ But the offensive against Australia's borrowing continued no less in Australia than in Britain and Lang continued to maintain his defence of this important economic facility.

NSW Borrows From United States

The Cooke and Davenport pamphlet was accepted in some circles as a signal of the decline in the level of British investment funding. One outcome of this failing was the encouragement Lord Chelmsford (NSW's Agent-General) gave to Lang to look to the US for funds. NSW was expecting difficulty in floating a loan in London until the commencement of the new financial year of 1926-27 when it would have to renew a loan of £11 million. Not wishing his financial friends to lose by seeing NSW switching to America, Chelmsford suggested that the New York loan should be handled through London agents and thereby 'preserve the good-will of the London market'.²⁷ Morgans in New York was found to be too expensive

and NSW accepted an offer from the Equitable Trust for its first US loan of \$US25 million (£5 million).²⁸ Alerted to this news, Dr Page immediately issued a press statement saying that NSW had obtained its loan at higher cost than had South Australia for its recent Loan Council London loan. In seeking not to have NSW perceived as gaining an advantage operating outside the Loan Council, he failed to mention that the South Australian loan was for exactly £1 million.²⁹ The Equitable Trust and Lang sought to communicate via the coded cable circuit used by the Australian Commissioner in New York, H.R. Denison. Denison reluctantly agreed, but he immediately reported these events to Bruce to deflect government criticism of his action.³⁰ Bruce, Page and their bureaucrats could thereby maintain a surveillance on their NSW foe.

Impressed by the speed and success of this loan, Chelmsford recommended further loans be raised in the US and W.J. McKell, Minister for Justice and Assistant Treasurer, was sent from Sydney to oversee these arrangements. He sailed to the US accompanied by C.R. Chapman, Under Secretary of the Treasury, on 10 February 1927. The US financial journalists were no less reserved in attacking Australia's borrowing arrangements than were their British counterparts. McKell had to spend some time with the editor of the *Wall-Street Journal* in particular to correct the published mis-statements. A second US loan was arranged for \$25 million at the same rate as the previous one. McKell was impressed by the efficiency of this New York company. It had its own publicity department to advertise the loan and then advertised that it had successfully floated it. The company was eager to maintain links with NSW and McKell perceived the development of a fruitful relationship if NSW wished to pursue it. Canada had abandoned London, finding that the US market could offer loans more cheaply. This was the fifth US-Australian loan; the previous ones were floated by Queensland and the Commonwealth.

The prejudice that had been fuelled in London against NSW remained strong when McKell arrived there on 8 April 1927. This had affected the sale of the stock from a £4 million loan raised early in September 1926, some of which was still in the underwriter's hands. The overdraft at the Westminster Bank exceeded the £5 million limit and Nivisons held little hope of a loan being floated before the end of 1927. The hostility of the press was assuaged by McKell meeting with the editor of the *Financial Times* and the financial editor of the *London Times* both of whom welcomed his information and explanations because they had not been able to obtain them elsewhere. To overcome the local antipathy, they urged that full economic information be provided by NSW in future loan prospectuses. From these events, McKell perceived the need to maintain a publicity officer in London to counter the critics of NSW. As a measure for attracting investors deterred by the adverse publicity, Nivisons urged McKell to agree to establish sinking funds. One fund would be used to assist in paying off all future loans at the end of 50 years and the other would apply to all previous loans raised by NSW. Lord Chelmsford was also a supporter of a sinking fund.³¹ This change reflected an innovation in the fashions of British Empire loan raisings. British lenders had always maintained a confidence in the states in which they invested their money if only from the frequent reports in British newspapers of Australian happenings and they never questioned that their loans would be repaid. NSW maintained a Debt Commission that assisted in redeeming loans. Having to establish a sinking fund to accommodate every loan had been perceived to be unnecessary until then.

The demands of Nivisons to alter these policies probably sprang as much from the firm's concerns about the growing political tensions in NSW, associated with Lang's controversial leadership, as much as from the increasing uncertainty that

was coming to mark developments in British financial affairs. After Lang had agreed to establish the sinking fund,³² Nivisons floated a loan of £12,500,000; £6 million was new money, the remainder converted. The loan was oversubscribed by £1,500,000. McKell's public relations activities assisted in this successful float. He addressed a dinner arranged by the Westminster Bank for financiers, bankers and financial editors on 26 April and subsequently had his speech published for distribution to holders of stock due for conversion and to leading brokers.³³ The anti-Australian elements in London asserted that the Australian debt was so large that Australia (and NSW) were unable to even pay the interest on it and that the new loans raised in London were actually used to pay the interest bill on that huge debt. McKell took pains to demonstrate in his speech how untrue were such lies. He explained that the interest bill on the NSW loans was £10,600,000 and that the amount of interest earned by the government's facilities such as the railways, the water and sewerage services and the harbour trust amounted to £8,600,000. The balance of £2,000,000, he indicated, could be provided from consolidated revenue.³⁴ The event demonstrated how insubstantial criticisms could devalue the State's credit and how expert rebuttal of it could quickly restore financial confidence.

Commonwealth Government Captures States' Finances

Bruce and Page proposed significant changes to the financial affairs of Australia's governments in 1926. They had reduced income taxation over the previous three years by 42 per cent while witnessing a doubling in their customs revenue from the tariff and excise duties. The Commonwealth enjoyed a surplus revenue of £7 million in 1924-25. The Commonwealth's payments to the states had remained fixed at 25 shillings per head since 1910. In spite of this growing affluence Bruce and Page proposed at the Premiers' conference in Melbourne on 24 May 1926 the cancellation of the 25 shilling payment to the states and allow them to take over the collection of all income taxation. The Commonwealth would retain the tariff and excise income. The Premiers opposed this programme. William McKell represented NSW and remarked on how the Commonwealth enjoyed surplus revenues while NSW had an average deficit over the previous decade of £3,186,000. Dr Page refused to back down and the Premiers met again on 21 June 1926 in Melbourne with Lang attending this time. It would be better for the Commonwealth if it was interested in better government, Lang remarked, to take over the education systems of the states and conduct them to the satisfaction of the people and retain the per capita payments altogether.³⁵ He declared on his return to Sydney that:

When the per capita payments cease the States will be utterly at the mercy of the Federal Treasurer. The structure of the State finances will be completely undermined, our credit imperilled, and effective State sovereignty gone.³⁶

Bruce and Page halted their radical measure for a time but then resumed their plan on 2 March 1927 by reviving the bill before Parliament. The per capita payments were to cease in June 1927 and states receive grants equal to the amounts lost just for that year. Nine government members joined with the ALP in opposing this drastic change, but the government still had sufficient numbers to have the bill enacted.³⁷

The Bruce-Page Plan and the Establishment of the Permanent Loan Council

Spurred on by this success against the states, Bruce and Page then introduced measures to convert the temporary loan council into a permanent one and to take over the existing state debts.

The per capita payment of £7.6 million would be used to discharge these debts and any additional debt payments would have to be paid by the states. Lang expressed considerable concern about the plans of Bruce and Page as follows:

The Commonwealth should not ask the sovereign States to give up their rights and hand themselves over, shackled hand and foot, to a loan council which, in effect, will be a Commonwealth authority. I judge from what has happened in the past what is likely to occur in the future. If the Commonwealth has these extended powers I do not think it will hesitate to use them. For these reasons I must state definitely that I entirely object to bind New South Wales to a Loan Council, and for me to agree to the insertion of such a provision in the Constitution would be practically to betray the sovereign rights of the State of New South Wales.³⁸

NSW remained aloof from all these discussions. Lang's opposition to the Bruce-Page plan had been clearly enunciated. If Lang's government had continued in office Bruce and Page would have had to amend their financial plans significantly if not abandon them. Lang was preoccupied with internal political affairs and probably saw little need to give the Agreement any priority. However general elections were held in NSW on 8 October 1927 which Lang's government lost by a small majority. Bruce and Page would have rejoiced with the removal of the single obstruction to making the Commonwealth paramount in national financial affairs. Bruce immediately enlisted the support of the new Premier, Thomas Bavin, and the Financial Agreement Act was passed in March 1928. The constitutional change was approved at a referendum on 17 November 1928. The sole opposition to this was led by Lang.

Jack Lang was the sole Premier to hold out against the plans by Bruce and Page to remove all financial powers from the states and to make them appendages of the Commonwealth. Bruce and Page had no experience of state leadership or politics. Their model was one of small government, national expansion through corporate or private investment and accepting guidance from British financial circles. Their philosophies were not far distant from those informing neo-liberalism in the late 1990s. Lang was able to stand up to Bruce and Page because he governed the largest state economy and he refused to conform to an economic model he knew to be unworkable if a federal system was to be retained. If a unitary model of government were to be established he would have supported a change, but he knew that was not on the Nationalist's agenda. When he came to form his second government in November 1930, the Great Depression was in full swing. The Australian commodity prices had seriously declined and this added to years of the Bruce-Page deflationary tactics and reductions in the loan council borrowings made the impact of the Depression all the more devastating. How Lang attempted to maintain the independence of NSW in the face of those changes lies outside the range of this chapter, except to note that he was utterly defeated in attempting to reverse the changes that Bruce and Page had imposed on the federation. Nor could he reverse Australia sliding further into the Great Depression.

Endnotes

- 1 'Control of Australian Borrowing. Submission to Loan Council by Dr. Earle Page on 1/2/24', Item 24-5892, A571, National Archives of Australia (hereafter NAA)
- 2 *Argus*, Melbourne, 5 March 1924.
- 3 'Mr Lang and the Loan Council' n.d.(circa 11 June 1925) Item F730/18 CRS A458, NAA.
- 4 *Sydney Morning Herald*, 12 August 1925.

- 5 Gillies to Page, 1 July 1925, Item 25.12305 A571, NAA.
- 6 Cable from Cook to Bruce, 6 July 1925, Item 25.12305, A571, NAA.
- 7 'Fifth Meeting of Australian Loan Council Held in Melbourne on 6th and 7th July 1925', Item 25.12305, A571, NAA.
- 8 Lang to Page, 14 July 1925, Item 25.12305, A571, NAA.
- 9 *Argus* 16 July 1925.
- 10 *Ibid.* p. 4.
- 11 Commonwealth Parliamentary Debates (hereafter CPD) 9 March 1928, p. 3780.
- 12 NSW Parliamentary Debates (hereafter NSWPD) 9 November 1926, p. 10.
- 13 *Sydney Morning Herald*, 1 January 1927.
- 14 Chapman to Fraser 9 October 1925, Fraser to Lang 16 October 1925, Lang to Fraser, 2 November 1925, Premier's Department Correspondence, file 10/22160, Archives Authority of NSW (hereafter AANSW).
- 15 Treasury Statement No. 14, Public Debt Papers 1925-26, NSW Parliamentary Papers, (hereafter NSWPP), 1926
- 16 Prime Minister Bruce to Australian High Commissioner 18 August 1925, Item 25.14967, A571, NAA.
- 17 'Resolutions of the 6th Meeting of the Australian Loan Council Melbourne 15th August 1925', Item 25.14967, A571, NAA.
- 18 *Daily Telegraph* 12 August 1925.
- 19 'Budget Notes 1925/26, The Loan Council', Item 25/20791, A571, NAA.
- 20 Financial Statement December 1925, Premier's Department Correspondence, 10/22161, AANSW.
- 21 See The Times, London, including editorials on the matter 13 March 1926, 7 April 1926.
- 22 See London *Times* 13 March for an editorial condemning Lang for attacking Downing Street over de Chair's resistance to appointing Legislative Councillors.
- 23 Cable McTiernan to Lang, 25 February 1926 and letter 3 June 1926, Premier's Correspondence file A 229-330 9/2019, AANSW.
- 24 Bank of England Memorandum 29 June 1925; M. Norman to Cook, 30 June 1925, OV 13/1, L53/2, Bank of England Archives (hereafter BoEA).
- 25 'Cable to the Governor in Sydney, 12th October 1925', OV13/32, BoEA.
- 26 *Sydney Morning Herald*, 18 November 1926.
- 27 Chelmsford to Lang, 9 December 1926, AANSW.
- 28 NSWPD, 8 February 1927, AANSW.
- 29 'Statement for Press by Acting Prime Minister, Dr Earle Page', 2 February 1927.
- 30 Denison to Bruce, 3 February 1927, Premier's Department Correspondence, file 9/2020, AANSW
- 31 Chelmsford to Lang 23 May 1927, Premier's Department Correspondence, file, 9/2018, AANSW.
- 32 McKell believed that Lang, on the advice of Coghlin and the NSW Treasury, had been opposed to a sinking fund. Interview by author with Sir William McKell, 15 March 1983.
- 33 'Abridged Report of Official Mission by Hon. W.J. McKell to New York and London February to August 1927.' NSWPD, 1928 pp. 1-8.
- 34 *New South Wales: Financial and Economic Position by the Hon. W.J. McKell, MLA. in a Speech to Bankers, Financiers and Financial Editors of the London Press*, (no printer), London, 1926 p.12.
- 35 *Age*, 23 June 1926.
- 36 *Sydney Morning Herald*, 20 June 1926.
- 37 CPD, 10 march 1927. p. 309.
- 38 Report of Proceedings of the Conference Between the Commonwealth and State Ministers, June-July 1927, NSWPP 1927, p. 16.